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March 20, 1959

Dear Dan:

This letter is to confirm discussions between Sid W. and Bill H. concerning the overrun on the AN/ALR-14 program. It has been agreed between the Government and the contractor that an estimated \$130,000 in overrun will occur on this contract. Bill H. has agreed to add \$100,000 to the contract to cover a portion of the overrun costs. The contractor will absorb the additional costs, if any, up to \$30,000 from its fee on the contract. In the event the overrun is less than estimated, the contractor and the Government will share the savings on a 50-50 basis.

With respect to the cause of the overrun, I would like to re-state some of the facts previously provided to you in our letter of 8 July 1958. It is important to keep in mind that this company trimmed its cost estimates to an absolute minimum in order to deliver the maximum number of systems within the available funds. This is evidenced by the fact that only \$25,000 was allocated for R&D costs in the original contract, and the operational tactics were planned so that a minimum of logistic support would be required. The cost estimates were low, but they were not unrealistic.

Equipment deliveries were set on a very tight time schedule. Within the \$25,000 R&D funds, only a few modifications to existing designs were to be accomplished, and production of systems was begun even before these modifications were complete. This, again, was not an unrealistic approach.

As additional equipment was added to the system, there was inevitably a moderate loss of production efficiency. Nevertheless, an over-all savings in time has been accomplished. With Amendment No. 1 additional R&D funding was provided for the development of additions to

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DOCUMENT NO. 113  
NO CHANGE IN CLASS.   
 DECLASSIFIED  
CLASS. CHANGED TO: TS S C 2011  
NEXT REVIEW DATE:  
AUTH: HB 70-2  
DATE: 151281 REVIEWER: 010958

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the system. The new "black boxes" were designed, again on a tight time schedule, but when integrated with the system, they caused electrical interference and malfunctions. The original \$25,000 modification then had to be redesigned under more stringent conditions. Production units had to be disassembled and modified. The top-priority delivery in July 1958 added some hidden costs for the next several weeks. For example, the solution to the problem of adding new major units to the system was accomplished by skilled and experienced engineers working as craftsmen. These solutions had to be refined before the remainder of the work could be accomplished by production assemblers.

Additional costs, not anticipated but typical of CPFF contracts, were incurred in December 1958. Defective components in a complex switching unit caused delays in production test. The defects were of a type not evident when the components were subjected to normal inspection. Eventually, nearly all production units had to be disassembled and modified.

Although the overrun is greater than originally anticipated, viewing the over-all contract and the nature of the work required we do not believe it is an unreasonable overrun. We would appreciate your taking necessary action to amend the contract consistent with the agreements expressed in this letter.

Sincerely,

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